

IC 27-1-12.3

Chapter 12.3. Interest Rates on Insurance Policy Loans

IC 27-1-12.3-1

Definitions

Sec. 1. As used in this chapter:

(a) "Published monthly average" means:

(1) Moody's corporate bond yield average-monthly average corporates as published by Moody's Investors Service, Inc. or any successor thereto; or

(2) in the event that the Moody's corporate bond yield average-monthly average corporates is no longer published, a substantially similar average, established by regulation issued by the insurance commissioner.

(b) "Insurer" means an entity issuing a policy.

(c) "Policy loan" means:

(1) a loan secured by a policy of life insurance under IC 27-1-12-6(8) and IC 27-1-12-19;

(2) any premium loan made under a policy to pay one (1) or more premiums that were not paid to the life insurer as they became due; or

(3) a loan secured by any certificate or annuity contract that provides loans on the security of the certificate or annuity contract.

(d) "Policyholder" includes the owner of the policy or the person designated to pay premiums as shown on the records of the life insurer.

(e) "Policy" means:

(1) a life insurance policy;

(2) a certificate issued by a fraternal benefit society; or

(3) an annuity contract;

that provides for policy loans.

(f) "Rate of interest" or "interest rate" means the rate of interest on policy loans, including the rate of interest charged on reinstatement of policy loans for the period during and after any lapse.

As added by Acts 1981, P.L.240, SEC.1.

IC 27-1-12.3-2

Required provisions in policies

Sec. 2. Policies issued after August 31, 1983, must contain a provision for policy loan interest rates permitting:

(1) a maximum interest rate of not more than eight percent (8%) per year; or

(2) an adjustable interest rate established from time to time as follows:

(A) The maximum rate of interest shall be the greater of the rate determined by the published monthly average for the calendar month ending two (2) months before the date on which the interest rate is determined or the rate used to

compute the cash surrender values under the policy during the applicable loan period as required in IC 27-1-12-7(5), plus one percent (1%) per year.

(B) The maximum interest rate for each policy shall be determined at regular intervals at least once every twelve (12) months, but not more frequently than once every three (3) months. The interval must be specified in the policy.

(C) As of the time of the periodic maximum interest determination, the interest rate on the policy loan will be fixed, not below the minimum rate, as follows:

(i) If the maximum rate is greater than the last previous establishment or change of the interest rate, the interest rate may at the option of the insurer be increased to any rate not in excess of the maximum rate.

(ii) If the maximum rate is less than the last previous establishment or change of the interest rate, the interest rate will be decreased to the new maximum rate.

(iii) Notwithstanding subparts (i) and (ii) of this clause (C), no change in interest rate which is less than one-half percent (1/2%) will be made.

(D) The most recently determined interest rate on a loan made on any policy will apply to the unpaid amount of all policy loans previously made thereon.

As added by Acts 1981, P.L.240, SEC.1. Amended by P.L.260-1983, SEC.6.

IC 27-1-12.3-3

Variable interest rate loans; duties of insurer

Sec. 3. With respect to variable interest rate loans under section 2 of this chapter, the insurer shall:

(1) notify the policyholder at the time a cash loan is made of the initial rate of interest on the loan;

(2) notify the policyholder as soon as is reasonably practical after a premium loan is made of the initial rate of interest on the loan, except that notice need not be given the policyholder when a further premium loan is added other than the notice required by subdivision (3) of this section;

(3) send to the policyholder reasonable advance notice of any increase in the loan interest rate; and

(4) include in the notices required by this section, whether the rate is fixed or variable and, if variable, the permitted frequency of change.

As added by Acts 1981, P.L.240, SEC.1.

IC 27-1-12.3-4

Loan value of policy; determination; termination of policy due to increase in interest rate

Sec. 4. (a) The loan value of a policy shall be determined in accordance with IC 27-1-12-6(8); however, a policy shall not terminate in a policy year as the sole result of an increase in the

interest rate and the failure of the policyholder to pay the amount of interest required by that increase during that policy year. In such event, the insurer shall maintain coverage during that policy year until the time at which the policy would otherwise have terminated if there had been no change during that policy year.

As added by Acts 1981, P.L.240, SEC.1.

IC 27-1-12.3-5

Nonapplicability of other laws

Sec. 5. No statute other than this chapter applies to policy loan interest rates, except to the extent that a statute enacted after the 1981 regular session of the Indiana general assembly specifically provides otherwise.

As added by Acts 1981, P.L.240, SEC.1.

IC 27-1-12.3-6

Inapplicability to contracts issued before September 1, 1981; agreement excepted

Sec. 6. The provisions of this chapter shall not apply to any insurance contract issued before September 1, 1981, unless the policyholder agrees in writing to the applicability of such provisions.

As added by Acts 1981, P.L.240, SEC.1.